

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AGR-05 SP-02 AID-05 EB-07 NSC-05

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0803

INFO USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

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PASS AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR

SUBJECT: EXPORT-IMPORT BEEF SCHEME - POSSIBLE IMPLICATIONS.

DISCUSSIONS WITH A NUMBER OF KNOWLEDGEABLE MEAT TRADE SOURCES HERE INDICATE THREE NOT NECESSARILY EXCLUSIVE THEORIES OR REASONS FOR ACTION.

THEORY (1) A SET UP FOR MAJOR SALE TO EASTERN EUROPE OR USSR.

DESPITE THE EXCLUSION OF FRENCH INTERVENTION BEEF FROM SALE BY REGULATIONS 1090, MOST PROMISING MARKET FOR LARGE LIMITED OFFICIAL USE

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QUANTITY OF BEEF IS USSR, ESPECIALLY IN VIEW OF SUCCESS

OF FRENCH FIRM IN PREVIOUS SALES. POSSIBLE SCENERIO IS A MAJOR SALE TO USSR ALONG WITH SALE OF 10,000 TONS OR SO TO SYRIA OR LEBANON, BY SAME FRENCH FIRM WHO HAS EXCELLENT TIES WITH BOTH PLACES. SALE WOULD BE AT LOSS TO FIRM, BUT WOULD BE RECOUPED BY LOW BID FOR LEVY PAYMENT ON IMPORTS AND SUBSEQUENT SALE OF IMPORT LICENSES AT LARGE PROFIT. THIS GETS AROUND EC SUBSIDY PROBLEM ON EXPORTS. WHILE COMMISSION HAS POWER TO REJECT ALL IMPORT LEVY BIDS, RISK TO FIRM IS MINIMIZED BECAUSE IF IT FAILS TO RECEIVE IMPORT ACCESS IT CAN THEN CLAIM A SUBSIDY. COMMISSION NATURALLY WOULD IN THOSE CIRCUMSTANCES PREFER TO ACCEPT LOW LEVY PAYMENTS RATHER THAN COUGH UP SUBSIDY EVEN KNOWING THAT FIRM IS BIDDING FROM NEAR MONOPOLY POSITION.

YUGOSLAVIA HAS BEEN PARTICULARLY HIT BY BAN ON IMPORTS AND MAY ALSO ENTER AGREEMENT WITH EC TRADER TO PURCHASE LOW QUALITY BEEF FOR DOMESTIC CONSUMPTION IN ORDER TO GAIN ACCESS ON CHILLED QUALITY CUTS.

THEORY (2) A MOVE TO HELP IRISH EXPORTS TO US.

COMPANIES OPERATING IN IRELAND MAY BE ABLE TO STEP UP SHIPMENTS IF LOSS ON SALES CAN BE MINIMIZED AND IMPORT LICENSES PURCHASED ON REASONABLE LEVY BID. HOWEVER, US RESTRAINT PROGRAM AND TIME RESTRICTION APPEARS TO LIMIT EX-IM IRISH-US TRADES TO ONLY SMALL PORTION OF 50,000 TONS.

THEORY (3) A REACTION TO PRESSURES FROM THIRD COUNTRY BEEF SUPPLIERS.

CERTAINLY SOAMES HAS BEEN PUSHING FOR SOME POSITIVE ACTION AND THIS NEW SCHEME AT LEAST DOES SOMETHING. TWO DIFFERENT REACTIONS FROM TRADE IN LONDON: (1) SOME FEEL THAT FEW IMPORTS WILL EVER RESULT, BUT EC CAN THEN CLAIM IT PROVIDED OPPORTUNITY FOR IMPORTS TO RESUME; (2) OTHERS IN TRADE FEEL THIS IS ABOUT AS FAR AS COMMISSION COULD CURRENTLY GO AND SUBSTANTIAL QUANTITY OF LICENSES WILL BE TAKEN UP. BUT BECAUSE IT APPEARS ONLY HIGH PRICED LIMITED OFFICIAL USE

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CUTS (STRIPLOINS, TENDERLOINS, RUMP STEAKS, ETC.) WOULD BE IMPORTED UNDER THE SCHEME DURING THE MODERATE TO SEVERE SHORTAGE OF SUCH CUTS EXPECTED THIS TOURIST SEASON, THE EFFECT ON INTERNAL LIVE CATTLE PRICES WILL BE MINIMIZED. THEORY OF SCHEME AS REACTION TO OUTSIDE POLITICAL PRESSURES RECEIVES SOME SUPPORT FROM THE METHOD USED FOR IMPLEMENTATION - COMMISSION ACTION BEFORE A COUNCIL MEETING. APPROACHING SUMMER, HOWEVER, PROBABLY

ACCOUNTS FOR LATE APRIL TIMING.

REGARDLESS OF REASONS BEHIND SCHEME THE SYSTEM IS RISKY FOR TRADERS. THEY MUST FIRST FIND A MARKET AND PROBABLY SUFFER A LOSS TO OBTAIN A SALE. THEY MUST THEN BID HIGH ENOUGH ON THE LEVY TO OBTAIN IMPORT LICENSES BUT NOT TOO HIGH SO AS TO SUFFER LOSSES ON THE WHOLE EXERCISE. THE MARKET HERE IS CURRENTLY UNSTEADY AND THE "IMMINENT"

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ANNOUNCEMENT OF THE 8,000 TON ITALIAN GATT QUOTA ISSUANCES WILL AFFECT PRICES FOR HIGH QUALITY BEEF. THUS THE TIMING OF THESE GATT IMPORTS WILL HAVE TO BE INCORPORATED INTO ANY COMPANIES- EX-IM SCHEME CALCULATIONS. ALL

SOURCES AGREE THAT EXPORTS WILL BE CHEAP BEEF (ALTHOUGH SOME QUALITY BEEF COULD GO TO MIDDLE EAST) AND IMPORTS OF CHILLED HIGH PRICED CUTS. IF DESTINED FOR THE CONTINENT IMPORTS WILL MAINLY ORIGINATE IN SOUTH AMERICA, WHILE IF DESTINED FOR UK MAIN SOURCE WILL BE OCEANIA. SUBSEQUENT PRICE LEVEL EFFECTS COULD AFFECT VARIOUS EC MARKETS DIFFERENTLY THUS THROWING CALCULATIONS OFF. HOWEVER, THE DECISION TO MAKE LICENSES MARKETABLE COULD SIMPLIFY MATTERS.

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THE STAKES ARE HIGH - PERHAPS TOTAL TURNOVER OF 90-100 MILLION DOLLARS AND THE KEY APPEARS TO BE FINDING A REASONABLE EXPORT MARKET. ONLY THE US, THE USSR, EASTERN EUROPE AND, TO A LESSER EXTENT, THE MIDDLE EAST WERE MENTIONED AS POSSIBILITIES.

CONCLUSION -- WE FEEL THAT THEORY (1) IS MOST LIKELY REASONING BEHIND SCHEME AS IT COULD ACHIEVE ACCESS AIMS WITH MINIMUM DISRUPTION TO INTERNAL PRICES (BEEF WOULD FILL EXPECTED SUMMER SHORTAGE) AND WOULD GET RID OF SURPLUS BEEF WITHOUT DIRECT SUBSIDIES. INCREASE OF IRISH EXPORTS TO US HOWEVER COULD WELL TAKE PLACE.

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